Exhibit 53 to the Olivia Weber Declaration

S&P Global
Market Intelligence

Broadcom Inc. NasdaqGS:AVGO

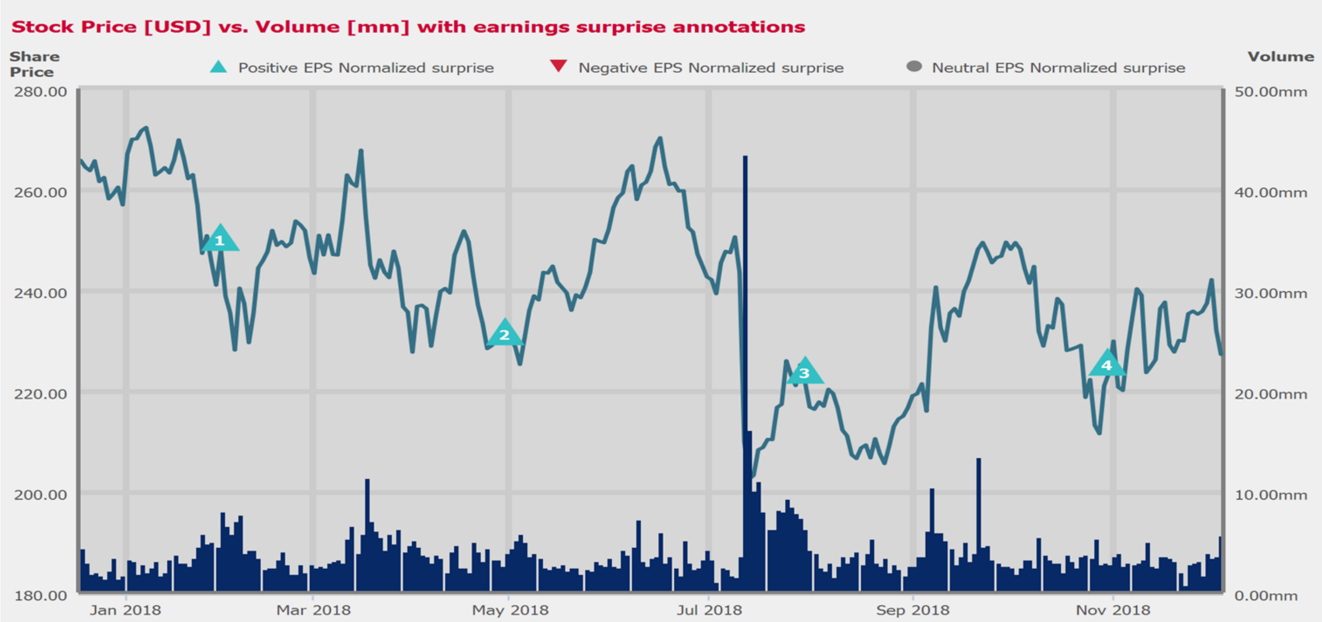
FQ4 2018 Earnings Call Transcripts

Thursday, December 06, 2018 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-			-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE
EPS Normalized	5.58	5.85	▲4.84	5.28	20.59	20.82	▲1.12	22.80	-
Revenue (mm)	5395.47	5448.00	▲0.97	5820.76	20805.92	20862.00	▲0.27	24031.11	24500.00

Currency: USD
Consensus as of Dec-05-2018 7:03 PM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	5.07	5.12	▲1 0.99 %
FQ2 2018	4.74	4.88	▲2 2.95 %
FQ3 2018	4.82	4.98	▲3 3.32 %
FQ4 2018	5.58	5.85	▲4 4.84 %

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Call Participants

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CEO, President & Executive Director

Thomas H. Krause
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Presentation

Operator

Welcome to Broadcom Inc.'s Fourth Quarter and Fiscal Year 2018 Financial Results Conference Call. At this time, for opening remarks and introductions I would like to turn the call over to Beatrice Russotto, Director of Investor Relations of Broadcom Inc. Please go ahead, ma'am.

Beatrice Russotto
Director of Investor Relations

Thank you, operator, and good afternoon, everyone. Joining me today are Hock Tan, President and CEO; and Tom Krause, Chief Financial Officer of Broadcom. After the market closed today, Broadcom distributed a press release and financial table describing our financial performance for the fourth quarter and fiscal year 2018. If you did not receive a copy, you may obtain the information from the Investors section of Broadcom's website at broadcom.com. This conference call is being webcast live, and a recording will be available via telephone playback for 1 week. It will also be archived in the Investors section of our website at broadcom.com.

During the prepared comments section of this call, Hock and Tom will be providing details of fiscal year 2018 results, guidance for fiscal year 2019 and some commentary regarding the business environment. We will take questions after the end of the prepared comments.

Please refer to our press release today and our recent filings with the SEC for information on the specific risk factors that could cause our actual results to differ materially from the forward-looking statements made on this call.

In addition to U.S. GAAP reporting, Broadcom reports certain financial measures on a non-GAAP basis. A reconciliation between GAAP and non-GAAP measures is included in the tables attached to today's press release. Comments made during today's call will primarily refer to our non-GAAP financial results.

So with that, I'll turn the call over to Hock.

Hock E. Tan
CEO, President & Executive Director

Well, thank you, Bea, and thank you all for joining us today. Well, as you saw, we closed the fiscal year on a very high note. Consolidated net revenue for the fourth quarter fiscal '18 was $5.45 billion, a 12% increase from a year ago, and EPS came in at $5.85, a 27% increase from a year ago. Importantly, free cash flow was $2.53 billion or 46% of our net revenue.

I would like to provide you more color on the top line today, and I have a lot to cover today actually. And please note fourth quarter results do not include any contribution from CA.

Starting with wired. On quarter results, starting with wired, revenue was $2.2 billion, growing 3% year-on-year. And the wired segment represented 41% of our total revenue for this quarter.

Looking deeper though, fourth quarter wired results reflect very strong year-on-year growth for our networking and computing offload businesses, driven by robust demand from the cloud data center market as well as traditional enterprises. And networking computing offload represented over 2/3 of our wired segment in the quarter and grew 22% year-on-year in the quarter. This is on the back of growing 10% year-on-year in the third quarter. So this part of the wired segment continues to be very robust.

On the other side, as anticipated, cyclical headwinds in certain parts of our broadband business reflecting weak carrier spending in those areas continue to impact this part of our wired business in the fourth quarter. As a result, broadband was down year-over-year again in the fourth quarter and offset partially the strong growth from data center spending.

Turning to enterprise storage. Revenue was $1.3 billion, representing 23% of revenue. And consistent with what we experienced in wired networking businesses, robust enterprise IT spending drove over 96% year-on-year revenue increase. Now of course, this includes contribution from Brocade, which we acquired about a year ago. But even if we strip out Brocade, enterprise storage grew double digits year-on-year in the quarter.

Moving on to wireless. Revenue was $1.7 billion, which was down 5% year-on-year. Wireless segment represented 31% of our total revenue. And wireless revenue, however, was somewhat better than our expectations for the fourth quarter as we benefited from upside volumes of legacy phone generations at our North American OEM customers.

And finally, our last segment, industrial. In the fourth quarter, industrial segment represented 5% of our total revenues. Distribution resales, which is how industrial are sold for us, continue to be strong, contributing to high single-digit year-on-year growth in the industrial business.

With that, now let's talk about the segment performance for the full fiscal year 2018, which interestingly enough could be in stark contrast to the Q4 results I just articulated. Wired for us in fiscal 2018 was up 1% as networking expanded while broadband was down. Meanwhile, enterprise storage was significantly supported by Brocade as well as strong organic growth in our server storage connectivity business. And industrial performed extremely well, up 4%, helped by a healthy macro backdrop. Finally, despite all the quarterly fluctuations, wireless was actually up 20%.

So what's interesting and what I want to highlight when you step back from quarterly results and look at the annual performance, we had a great year. Our revenue hit a new record high, growing 18% year-on-year to nearly $21 billion for fiscal '18. This clearly demonstrates how our diverse set of businesses drive stability and sustainability in our consolidated revenue despite quarterly and even annual volatility in specific segments. With this in mind, we plan to move away from quarterly guidance to annual guidance going forward. Annual goals and guidance reflect, we believe, more accurately how we manage our business and also aligns very well with how management and employees in this company are measured.

In addition, viewing our business broadly, you can see we have created, over the years, organically and through acquisitions a substantial core revenue stream in semiconductors based on technology enabling connectivity solutions across a broad set of end markets. We continue to remain focused on the sustainability and growth of this core business.

But in addition, with our acquisition of Brocade, we created a complementary revenue stream to our semiconductor solutions that we are now calling infrastructure software. With CA -- with the acquisition of CA, I mean, we will grow this revenue stream and build upon it through acquisitions consistent with our business model. As a result, going forward, our 2 primary segments will be semiconductor solutions and infrastructure software.

And so for fiscal 2019, this coming year, the outlook for business is as follows. In the semiconductor solutions segment, we expect continued robust demand from cloud customers with the ramp of next-generation Tomahawk 3 switches and from the launch of our next-generation routers, Jericho 2.

We also expect to see recovery of spending by carriers, operators in cable and -- excuse me, in cable as well as in communications as we expect the broadband market recovery to start to progress through the year. We have already seen that happen this quarter. Storage, we believe will be stable relative to fiscal 2018. And as we previewed last quarter, we believe the reset in our wireless business in the first half of 2019 from share loss in the current phone generation will be followed by a substantial recovery in the second half as we take share back for the next generation.

So while there will be lots of puts and takes here, our outlook for the semiconductor business is for modest revenue growth in 2019. This may be somewhat dampened relative to our long-term mid-single-digit growth expectation by wireless.

Now turning to infrastructure software segment. Before providing our outlook, I should take a few minutes to outline the substantial changes we are making to the CA business model. We expect these changes to result in a dramatically more profitable revenue base, which is more aligned to the rest of Broadcom

and that we expect will grow. First and foremost, gone are the days of trying to land new products with new customers. And I'm referring to software, enterprise software. We are focusing all our attention on renewing existing products with existing mainframe-centric customers, customers that represent virtually all of the world's largest enterprises and largest spenders on IT. We're also targeting expansion opportunities within this core mainframe customer base. The cost of running this renew-and-expand model will be substantially less than the legacy "land at all cost" model, and importantly, renewing and expanding plays to CA's strengths.

Let me explain. Today, over 70% of CA's revenues are derived from its top 500 accounts. In almost all cases, these top customers have been licensing CA mainframe products for more than a decade and oftentimes, several decades. CA contracts with these customers are primarily broad-based, multiyear license agreements and include a term license with maintenance for mainframes. At this same customer, entire enterprise products are sold as perpetual licenses with maintenance embedded in the license agreements.

At each of our top customers, we have 2 primary objectives. One, we want to expand our efforts on mainframe and make sure we are realizing the full value that our mainframe tools are delivering to our customers. And as we discussed on the prior call, usage as defined by mix, has been growing at double-digit rates at all these top accounts. Logically, we are now more focused because of that on pricing mainframe based on consumption. We also feel there's a huge opportunity for customers to save money by leveraging our broad mainframe portfolio to drive more convergence through CA tools.

Going on to the second objective, we really want to expand our enterprise software products within these same top accounts. Now it is true that lower cost and lighter weight SaaS alternatives have been creating challenges for CA for some time in the enterprise software market. But what's interesting is that CA actually is very highly rated. In fact, Gartner upper right-hand Magic Quadrant categories for enterprise software -- enterprise product software on the -- for enterprises. While they are very well suited to the private cloud IT environment of the largest enterprises, these enterprise software are just too expensive relative to SaaS. So moving forward, we are going to move away from the inflexible perpetual license model for enterprise software to an enterprise-wide "all you can eat" license for all of our core accounts.

By doing this, we expect to remove the friction caused by selling expensive upfront perpetual licenses so that the incremental costs for our customers to expand the use of enterprise products will be highly competitive relative to SaaS-based alternatives. Bottom line, we are adopting a fully ratable subscription model for the Broadcom software business. The new business -- this new business model, we believe, plays to our strengths, focusing on the largest 500 customers tied to mainframes with the ability to upsell enterprise software competitively using an "all you can eat" subscription-based model.

We expect this transition though to take a couple of years given the timing of contract renewals. But once completed, we expect revenues to stabilize at over $3.5 billion annually and grow from there. And to support that revenue base, we do not expect to spend more than $900 million per year. And as a result, we expect to achieve more than $2.5 billion per year in operating profitability from the CA business once we go through this transition. We are well underway today with the CA restructuring and integration process, including announcement of the Veracode divestiture to Thoma Bravo and the outsourcing of the CA services business to HCL.

So with that as background, let me talk about our outlook for the infrastructure software segment in 2019. Now SAN switching, private channel SAN switching here, performed beyond expectations in 2018 on the back of very strong enterprise demand as well as meaningful share gains. While we expect to continue to see healthy demand, we do not expect in this forecast to have this sustained through 2019. Furthermore, since we are moving mainframe and enterprise software products to a fully ratable revenue recognition model and just focusing on the top 500 accounts, we expect a reset in the CA revenue starting Q1 2019. As a result, our revenue outlook for the infrastructure software segment for 2019 is -- will be approximately $5 billion.

Combining the semiconductor solutions, in summary, we are forecasting consolidated revenue to be approximately $24.5 billion fiscal 2019. This will be, to repeat, driven by a very stable semiconductor business that will be complemented by an infrastructure software business that we are rapidly building up.

Thank you. Tom?

Thomas H. Krause
CFO & Secretary

Thanks, Hock, and good afternoon, everyone. My comments today will focus primarily on our non-GAAP results from continuing operations unless otherwise specifically noted.

Let me walk through our results for the fourth quarter of fiscal 2018. Fourth quarter net revenue was $5.45 billion, ahead of the midpoint of guidance. Our gross margin from continuing operations is above the high end of our guidance at 68.4% as we benefited from a more favorable product mix in the quarter.

Operating expenses were slightly lower than expected at $863 million. As a result, we achieved record profitability in the quarter. Operating income from continuing operations was $2.86 billion and represented 52.5% of net revenue. Adjusted EBITDA was $3.02 billion and represented 55.4% of net revenue. This figure excludes $132 million of depreciation. And the company delivered $5.85 of EPS in the quarter off of a 435 million weighted average fully diluted share count. This represents 27% EPS growth compared to the same quarter last year.

Working capital, excluding cash and cash equivalents, increased approximately $105 million compared to the prior quarter due primarily to an increase in receivables. This increase was driven by seasonally higher shipments in the last month of the quarter. In addition, we spent $106 million on capital expenditures. As a result, we had record free cash flow from operations at $2.53 billion or 46% of revenue. This represents 47% growth in free cash flow from operations compared to Q4 of 2017.

In the quarter, we returned $2.26 billion to stockholders, including $723 million in the form of cash dividends and $1.53 billion for the repurchase of 6.4 million AVGO shares. We ended the quarter with $4.3 billion of cash, $17.5 billion of total debt, 408 million of outstanding shares and 432 million fully diluted shares outstanding.

Now let me turn to our fiscal year 2019 non-GAAP guidance. We do intend to update our annual guidance on our quarterly earnings calls throughout the year. And as normal, this guidance is for results from continuing operations only.

As Hock discussed, net revenue for fiscal 2019 is expected to be approximately $24.5 billion, including approximately $19.5 billion from semiconductor solutions and approximately $5 billion from infrastructure software. IP licensing is not expected to generate a material amount of revenue.

Operating margins are expected to be approximately 51%. I'd like to note, post-CA integration restructuring, we do expect to move closer to 55% operating margins in 2020. Net interest expense and other is expected to be approximately $1.25 billion and reflects maintaining a target cash balance of approximately $4 billion and servicing total debt outstanding of approximately $37 billion following the close of the CA deal. This forecast does not contemplate any debt paydown in fiscal year 2019.

The tax rate is forecasted to be approximately 11% and includes a slight negative impact from the CA acquisition. Depreciation is expected to be approximately $600 million. CapEx is expected to be approximately $550 million. As a result, free cash flow from continuing operations is expected to be approximately $10 billion. And finally, stock-based compensation expense is expected to be approximately $2.1 billion. Now this is a substantial increase in our stock-based compensation expense, and let me take a moment to explain.

We are implementing a special broad-based multiyear equity award program for our employees, including our new CA employees. Each multiyear equity award will vest on the same basis as 4 annual equity grants made on March 15 of each year beginning in 2019. And it is expected that a maximum of approximately 31 million shares of common stock in aggregate will be issued and vest over the next 7 years. This is the same number of shares in aggregate as we would have expected to grant over the next 4 years annually. The spike in the 2019 stock-based comp will start to come down in 2020 and decline from there back to our normal level by 2022.

So in summary, really, this is an accounting dynamic that impacts the stock-based comp in 2019. We do believe providing 4 years of equity grant upfront provides clarity regarding future compensation that creates a powerful retention incentive in an otherwise tight labor market and a sharpened focus on long-term stockholder value creation. In addition, it allows us to maximize the use of the remaining authorized share reserves under our 2009 Avago equity award plan, which unfortunately is expiring in 2019. As broad-based employee stock ownership is a fundamental tenet of our company, it is important that we continue this legacy while our current equity plans enable us to do so.

I would note a couple of things. One, Hock is not participating in this program and as previously disclosed, will not receive another equity grant until at least 2021. In addition, for executives, 50% of the awards are PSUs, the vesting of which is tied to total shareholder return similar to our prior annual awards to executives. Finally, no further annual grants are planned for employees who receive this award until at least 2022.

Now let me turn to capital allocation plans before we open the call for questions. Consistent with our capital allocation strategy, we are focused on returning approximately 50% of our prior year free cash flow to stockholders in the form of cash dividends with the balance being allocated through a combination of stock buybacks and acquisitions. In addition, we plan to also continue to use our balance sheet to fund acquisitions while focusing on maintaining our investment-grade credit rating.

With that, on the dividend, based on approximately $8.2 billion of free cash flow that we generated in fiscal 2018, we are increasing our target quarterly cash dividends starting this quarter to $2.65. This constitutes an increase of 51%. We plan to maintain this dividend payout throughout the year subject to quarterly board approval, which means we plan to pay out over $4 billion in cash dividends in fiscal 2019. Consistent with our capital allocation policy, we will reassess the dividend at this time next year based on our fiscal 2019 free cash flow from operations.

Now given the dilution stockholders are bearing from the multiyear grant and given the free cash flow yield that Broadcom is currently generating, we are also budgeting to return an additional $8 billion to stockholders through stock buybacks in fiscal 2019. Coupled with the dividend, this means we are planning to return approximately $12 billion to stockholders in fiscal 2019, which constitutes all of our projected free cash flow plus the excess cash that we have on our balance sheet today.
That concludes my prepared remarks. [Operator Instructions] Operator, if you could please open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Vivek Arya with Bank of America Merrill Lynch.

Vivek Arya
BofA Merrill Lynch, Research Division

Hock, I understand, I appreciate keeping the focus on longer-term trends. But just because removing the guidance on a quarterly basis is a big change, just for this quarter, could you give us some color on how Q1 trends are shaping up, especially given all the concerns around trade and status and your largest customers? So even if you can't quantify everything, if you could just give us some color commentary on what's going on in different segments in Q1, that would be very helpful.

Hock E. Tan
CEO, President & Executive Director

I'll give you the answer. It's okay. Remember, we have backlog out 18 weeks for most of our products. That's longer than a quarter, which runs 13 weeks. And based on that, what we have in place, it's running pretty -- trending pretty well compared to Q4, okay? And keep in mind, it's -- the puts and takes even in all of this and broadband stocks will recover, as I mentioned before, finally, at long last, networking offload computing is still nicely holding up, but handset, wireless, we've seen it out there. We expect to see a seasonal downtick. So storage, flattish back to moderation. So all combined together, things are kind of what it is. Okay.

Operator

Our next question comes from Aaron Rakers with Wells Fargo.

Aaron Christopher Rakers
Wells Fargo Securities, LLC, Research Division

I want to understand maybe the puts and takes a little bit better in the software -- infrastructure software guide. If we look at CA's results on a stand-alone basis, it looks like they're about, call it, $5 billion. You're stripping out the services business. You sold Veracode. So can you help us bridge a little bit more the uplift you're seeing from that level of revenue to that $5 billion of guide for the full year?

Thomas H. Krause
CFO & Secretary

Yes. Aaron, it's Tom. I think, keep in mind, there are now 2 substantial businesses. I should really say 3 in that number as you probably pointed out. There's the CA business for a couple data points. Veracode, the run rate business, is about $150 million a year it was growing. And we've outsourced the services business, so that business will start to tail off through the course of 2019 and largely be gone in 2020. But then keep in mind also there's Brocade, the SAN fibre channel switching business, which is performing very well for us. We're not breaking out these specific revenues for that particular business, but it's also providing substantial portion of the overall $5 billion. So in total, we see a reset in the CA business starting in Q1. We do expect, based on the renewal expectations around our core 500 customer base, to grow throughout the year with CA, and we also expect to continue to maintain reasonably high levels of revenue with the Brocade Fibre Channel business.

Operator

Our next question comes from Amit Daryanani with RBC Capital Markets.

Amit Jawaharlaz Daryanani
RBC Capital Markets, LLC, Research Division

When I think about the $2.5 billion operating profit target from CA, can you talk about the time line to achieve that? And when I look at the accretion or the incremental contribution again from post CA, the accretion, I guess, how much of that is going to come in COGS versus OpEx for you guys?

Hock E. Tan
CEO, President & Executive Director

Well, very interesting question. Let me outline again what I went through in my remarks fairly quickly. And as Tom actually articulated earlier in answer to Aaron's question, we start 2019 partly because of a resetting from recognizing perpetual licenses on an accelerated manner to ratable subscription base over revenue recognition. '19 will take a step down from what you typically expect the rate to be, and you will rapidly build up over the next 2, 3 years to the level, as we spoke about, closer to over $3.5 billion. On the spending side, if you recall, before we acquired CA, the last quarter, stripping out services, taking out services, which was a wash, spending -- total spending was above $2.4 billion, $2.5 billion per year. We're bringing it down to $900 million. And we are able to bring it down to $900 million is for what I purposely articulated in my opening remarks. Okay? A large part of that $2.4 billion of spending was attributed to the various sales motion, development motion, I should say, of trying to land new customers as well as land existing customers with new products but basically landing new customers. And a lot of these customers are, I would consider, the long tail of a long list of customers. The largest 500 customers in the world are already their customers through mainframes. But they do -- a but a big amount of that spend, I would guess what we're seeing is to the tune of more than $1.5 billion and leads -- sorry, I think, yes, a bit above our spending $2.4 billion, sorry, $900 million is our annual spot close to $1.5 billion is used to try to develop new products and land on new customers. By moving away from that, focusing on the largest 500 customers, we think that with renewals, with mainframes by upselling on enterprise software, we basically get to the same revenue number with much less spending substantially, and that's a $3.5 billion, say, as conservatively we get to in year 2 or year 3 from today; and last, the $900 million savings end state spending is where we believe we get to around the $2.5 billion operating profit target.

Operator

Our next question comes from Toshiya Hari with Goldman Sachs.

Toshiya Hari
Goldman Sachs Group Inc., Research Division

Hock, you talked about your intention to regain share in the RF business next year. I think that's consistent with what you had said 3 months ago. I appreciate the time you spend with your customers in designing these products, and you probably have some visibility. But I was under the impression that the SKUs for next year hadn't been set. So I guess, the question is what gives you the confidence that you can indeed regain share in that business?

Hock E. Tan
CEO, President & Executive Director

We're just confident. And obviously, we have not been idle. We have been working and this -- and -- because these are very difficult products, very complex technologically advanced products to do, and we have been working on it for over a year with customers.

Operator

Our next question comes from Harlan Sur with JPMorgan.

Harlan Sur
JP Morgan Chase & Co, Research Division

Hock, you talked about continued strong trends fiscal '19 in networking demand, cloud and enterprise. I was hoping you could quantify a bit more. Next year, it's still looking like the cloud guys are growing their spending again albeit at a lower rate versus this year but then you -- they're on the 200-, 400-gig upgrade cycle with Tomahawk 3. And then you've got the ramp of some of your AI and deep learning and smart

NIC ASIC programs. Given all of this, I kind of wanted to know if the team still feels like they can sustain double digits year-over-year growth rates for this segment fiscal '19.

Hock E. Tan
CEO, President & Executive Director

Very good question. Thank you. Yes, cloud, public cloud, I call it, spend -- part of our networking compute offload business so to speak. The public cloud side, which is about half or at least half of our revenues right now in that sector that does networking and compute offload continues to be extremely strong. And it's strong not because anything else. In 2018, that one, we didn't launch any major new milestone products, and we still grew as we indicated. We grew double digits. 2019, we have, in addition to that natural momentum, the addition of the fact that we're launching both 2 significant products, the top of the rack switch, the Tomahawk 3, 12.8 terabyte -- terabit per second, thick throughput switches, which are very welcome, very -- basically, won't be very much in use by the hyper cloud guys. That will be our big driver of growth. In addition -- but perhaps in use in some of the spine architecture of those hyper cloud data centers. But more on just [smart] and also at operators for routing, for their routing applications, we are launching middle of the year Jericho 2. So we have 2 product drivers on top of the natural momentum of increasing content that we are seeing that you articulated in those data centers at the cloud from -- especially from compute offload, where we're talking about more than controllers. We're talking of deep learning, content. We're talking about compression encryption, and we're just talking broadly about anything to do with offloading CPU cycles from servers. And that's a very long-term tailwind that we have basically been able to take advantage of and continue to benefit through probably more than 1 year.

Operator

Our next question comes from Romit Shah with Nomura Instinet.

Romit Jitendra Shah
Nomura Securities Co. Ltd., Research Division

Tom, I just want to make sure I had my facts correct on the option grants, so $2.1 billion for fiscal '19, and you have that coming down over -- is it over a 4-year period? And does it go back to the fiscal '18 levels or some level above that?

Thomas H. Krause
CFO & Secretary

No, I think it's the right way to think about it, Romit. It's a 4-year grant accelerated and done in 1 shot this year as opposed to doing it over 4 years. So in aggregate, you wouldn't have any difference. But from an accounting perspective, you'll have -- take all the stuff up this quarter. It'll start to bleed off next year and decelerate back to where we were over a 4-year period. So I look at the 2018 $300 million a quarter type stock-based comp run rate as the run rate roughly for the company on a steady-state basis.

Operator

Our next question comes from William Stein with SunTrust.

William Stein
SunTrust Robinson Humphrey, Inc., Research Division

I'm particularly focused on the dividend. There was a significant increase this quarter. And when we contemplate the company's ability to grow the top line long term, expand margins and your capital allocation plan save any further M&A, what does management expect the sort of long-term growth rate of that dividend to be?

Thomas H. Krause
CFO & Secretary

Sure. Well, so I think we've spelled it out fairly clearly both on the policy in terms of returning the 50% of free cash flow from the prior fiscal year. And we've spelled out now what we think we can do from a free cash flow from operations perspective in 2019, which is the $10 billion. So when you take into account the buyback expectation that we've also articulated of approximately $8 billion, the outstanding shares should come down as well as the free cash flow is going to go up. So when you do that math, you're going to come up with a number that's north of 20% in terms of potential for dividend growth. Now going forward, we'll have a couple of other tailwinds that we've benefited from the past, which is frankly M&A and the accretion that we drive once we're fully integrated and restructured. And so as Hock's been articulating, when we get to the $2.5 billion-plus of operating profit, that's going to start to be realized in 2020 into 2021. Absent additional M&A, we would continue to focus not just on the dividend but also the buyback, which would allow us to reduce the share count as well. So I think we have a good setup to continue to be able to drive the dividend well into the double digits over the next several years.

Operator

Our next question comes from Stacy Rasgon with Bernstein Research.

Stacy Aaron Rasgon
Sanford C. Bernstein & Co., LLC., Research Division

I was wondering if you could elaborate a little bit on the "all you can eat" model that you're developing now for the enterprise software business. Does that basically work one license that the customer takes for anything that you buy going forward and put into that segment? And if that's true, how do you grow the business without taking those rates up over time if you're still selling to the same customers? Like, what does that model actually look like over time?

Hock E. Tan
CEO, President & Executive Director

Oh, yes. That's a very good point, and you're right. We provide that enterprise-wide license to those core customers only, by the way, product by product. Obviously it's not across all our enterprise products at the same time, but it's only when the customer is adopting. And so that part of it becomes important. You're right because customer -- if one of those big core customers adopts, say, agile operations -- one of our agile operations software or agile, what we call, Rally, which is for projects and they want more seats, they want more capacity, what we will provide is for a license -- for a contract -- license contract of a -- on a multiyear basis. We expect to get a certain amount of dollars I should say, and we'll give them under that enterprise-wide unlimited license. And you're right. So for that particular product, limited ability to increase except on the fact that after, say, the contract is 3 years, end of 3 years, inflationary improvement and improvement in our products, innovative improvement in putting more features in the product. But we better be selling them another product on the same basis. And that's how we expect to be able to grow. And so from 2 fronts: improving the product we have on an ongoing basis but also send the customer another product from our very broad suite of enterprise software products.

Operator

Our next question comes from Craig Ellis with B. Riley FBR.

Craig Andrew Ellis
B. Riley FBR, Inc., Research Division

Tom, I think it was in your comments where you mentioned the aspiration for 55% operating margins in fiscal '20. But since that would represent a 400 basis point increase from what you're targeting in fiscal '19, can you just walk us through some of the assumptions that could lift the operating margin level that magnitude?

Thomas H. Krause
CFO & Secretary

Yes, good question. So there's a number of things in that. First and foremost, we do continue to see the ability to grow the business. In the core semiconductor business, we do expect, especially as wireless

recovers in the back half, to see a return to more standard sort of mid-single-digit growth rates in 2020. On the software side, as we continue to grow into the ratable model, we also expect to continue to see growth there in 2020 and into 2021. And then as is consistent with what you've seen over the last many years, our model is very focused on gross margin expansion. We will continue to drive incremental expansion in gross margin especially on the semiconductor side. And then finally, we talked about it a lot on this call, but we are going to be reducing expenses dramatically with CA. And we're doing that because of the change in the business model and the focus on the top 500 accounts, the focus on leveraging mainframe with these great enterprise products and moving to a fully ratable model, which is a much lower cost, much more profitable way to run the business. And so you're going to see the benefits of that in 2020, which will actually continue to show progress even into 2021 we think. So 55% operating margins, we think is very achievable with all those factors as we to look out beyond '19.

Hock E. Tan
CEO, President & Executive Director

And to be specific, right, today -- this fiscal '19, when we buy a company, a company especially as complex and large as CA, it takes us a year or 2 to transition to the end state. Fiscal '19, I would estimate we are carrying something like $1 billion of transition expenses in fiscal '19 alone. Now it won't all evaporate by fiscal '20, but a big part of it will evaporate by fiscal '20. And that, with the revenue increase Tom was talking about, gets us to that 55% operating margin.

Operator

Our next question comes from Craig Hettenbach with Morgan Stanley.

Craig Matthew Hettenbach
Morgan Stanley, Research Division

Hock, just a question. Any particular feedback from large customers now that you have Brocade and CA together? Anything you like to discuss in terms of some of the synergies and overlap of customer base and things you can do?

Hock E. Tan
CEO, President & Executive Director

Great question. Yes. I have met with quite a few CIOs, Chief Operating Officers and CIOs of fairly -- of some of the largest customers of CA who happen to be going for example or otherwise the largest end-use customers of Brocade as well, which is SAN switching. And you may know, we have mentioned it prior quarters, SAN switching, which is attaching to storage arrays, is very, very connected to mainframes as well in hardware and software, the way storage is done. And basically, all these customers, CIOs, a lot of them are, as you all know, thinking through the high levels of IT spending each of them has to go through. Each of them are trying to figure out what's the best structure, architecture for their data centers. And many of them are regulated, which means they can go completely to the cloud. So a lot of them are going -- are talking about -- actually, we all hear hybrid cloud. A lot more then are thinking of building their own private cloud. We have all the technologies, hardware and software to build -- enable them to build those private clouds. And each of those CIOs in these larger companies who are spending several billion dollars at least a year in IT are quite able and have the scale to do that. So there is potentially a lot of synergies, and it's not just in the technologies we have and collaborate as one. It's also the go-to-market model that would be very much simplified as we now reach out to those end-user customers who are in CA, who are in Brocade and who put indirectly -- are building or buying big data centers, compute storage, networking indirectly from us. So there is a lot of synergies, and we have begun the process of engaging in a dialogue.

Operator

Our next question comes from Vijay Rakesh with Mizuho.

Vijay Raghavan Rakesh
Mizuho Securities USA LLC, Research Division

Hock, you mentioned the "all you can eat" model for software. I was wondering if you continue to do more M&A on the software side that you can stack on that same model.

Hock E. Tan
CEO, President & Executive Director

That's a great idea, and we definitely want to do that because we have developed with CA the platform, that platform for support customers -- ensuring customer success and the platform for directly touching, engaging, in fact, heavy touching, I call it, on those larger 500 customers. And as we add on more products, software products, be they particularly on enterprise software, we do -- we believe this is a opportunity for us, as we say, to build on that second revenue -- complementary revenue stream in infrastructure software.

Operator

Our next question comes from Ross Seymore with Deutsche Bank.

Ross Clark Seymore
Deutsche Bank AG, Research Division

Hock, I wanted to ask a bigger question. With all the uncertainty in China trade, macro, et cetera, you mentioned you have the 18-week backlog and that the first quarter, I think, is doing fine, to paraphrase what you said. Have you noticed any change in any of the various end markets that you have given these uncertainties in the customer behavior in any way, shape or form?

Hock E. Tan
CEO, President & Executive Director

Oh, yes, I'm sure they are. But I think I'm not sure some of it is related more to microeconomic variations in those niche markets we deal with versus the bigger concern with respect to tariffs, is what I think you are referring to. It's hard to tell. But as we said, we're across so many different end markets, niche markets, some of them. We do see some of them -- your question is are they all consistently trending down. No, we do not see that. But we do see some that are down, and we do see some that are up. And is that an indication that it's tariffs versus very typical microeconomics or macroeconomics? Can't really tell because some of the color that I've given you guys are almost -- I mean, are not affected by those going through broadband recovery. I think it's more tied to the lumpiness and the cycle of carriers and operator investment, especially in Europe and U.S. more than anything else. And we have benefited from that. Meanwhile, cost spending, be they in the U.S. or China, is still on track because that is still going on very well. Enterprises, maybe we start seeing some level of slowdown in enterprises, but that's only now to -- down to a small part of our broader system. So there's a lot of mix. And at the end of the day, it's not that clear yet how this will affect the business we are in, which is largely enterprises and operators. Our exposure to consumer is limited, limited to those couple of these high-end phones. And in that regard, as we all have seen, the phone market has not been exactly very strong these past several months.

Operator

Our next question comes from John Pitzer with Crédit Suisse.

John William Pitzer
Crédit Suisse AG, Research Division

A lot of my questions have been answered. But Hock, just to follow on to Ross' question, you made some comments about cloud/hyperscale, and that's clearly an area where, I think, growth has been particularly strong this year. And there's some investor angst about whether or not from these high levels that can be sustained into '19. I'd love to get your view on that. And as you answer the question, I'd love to get sort of the differentiation between kind of your core Ethernet business and maybe some of your new emerging ASIC business you have with the hyperscale guys, especially around acceleration in AI and how that's playing out.

Hock E. Tan

CEO, President & Executive Director

Okay. Two questions. Let's try the first one. The cloud guys, as we see, the spending is still going on. I mean, they are -- their spending pattern to some extent almost is starting to track or copy those of operators. They get lumpy. They don't spread evenly across the year, but that's part of the reason why we want to go to annual thing because you do it quarterly, it's not driving me crazy. It's driving you guys, who track us, crazy because it gets very lumpy, especially with the level of spending. They are all coming in and the level of spending we -- they make on our products. And -- but you look at it across a period of like a year, they are sustaining. And they are sustaining and I really mean the high -- the large cloud guys, which include both China and U.S. but also even the Tier 2 guys. It's still sustaining. And probably, there's also content. We're selling them more and more stuff -- I should say products. It's not just switching and to some extent, routing. It's not just switching that we started with initially. It's -- which is why I like -- and it's not new generation of switching as they go to scale out of the data centers and higher capacity switching. We sell interconnects like fiberoptics, and that, I think, goes from 1 -- 10 gigabit to 100 gigabit, now 100 to 200 and 400. The price point, the content of those fiberoptics goes -- shoots up fairly exponentially and very nicely. And then we also do this computing offload, which is really a nice description of broad base of, as I say -- you call it accelerators. And it's true. They are mostly accelerators and deep learning chips, network, Ethernet, controllers, Smart NIC as some people call them, encryption, compression, video delivery chips, all those growing bigger. The content keeps going up. And that's why they're some at level -- when you pull it all together, where do you see cloud going? And as I say, most of these are not 1 generation or 1 year at a time. They go beyond 1 year. So overall, we see it as a continuum that is growing. How fast does it grow? It's that 20% I mentioned in Q4 seem somewhat unusual, but it's because of the lumpiness. And that's why we don't give you guys the wrong impression because the quarter before was closer to 10%. And on average, I would say, the cloud guys grow more, more likely in the high single digits to 10% year-to-year than a 20% that any particular quarter might lead us to think. So -- but it's there and very stable. And it's there to replace, to some extent, the enterprises, the traditional enterprises.

Operator

We do have time for one final question, which will come from Timothy Arcuri with UBS.

Timothy Michael Arcuri
UBS Investment Bank, Research Division

Tom, I'm just trying to get kind of an apples-to-apples bridge on the $24.5 billion relative to the $23.9 billion that was shown as a pro forma in the presentation for the CA deal. I know you're losing Veracode and you're losing some of those customers around HCL, but you're also getting a bump from the change in the model in the software business. So I'm just trying to get a bridge on the apples to apples on that $24.5 billion relative to the $23.9 billion that you showed in the presentation.

Thomas H. Krause
CFO & Secretary

It's a challenging bridge only because you're talking about, first of all, 2 accounting standards of 605 versus 606 on the CA side. But be that as it may, I think the right way to think about it is the $24.5 billion. We talked a lot about where we think semiconductor growth will be. It's a new way of reporting for us, but we think we're going to have modest growth on the semiconductor side. And then you've got 2 businesses. You've got CA and Brocade, which is constituting the $5 billion that we're building up on the infrastructure software side. So we're quite comfortable based on modest growth in semis and we've articulated I think quite clearly how we get there on top of what is a solid Brocade business plus a restructured and reset CA business. And that's how we get to the $24.5 billion.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect, and have a wonderful day.